

**BOARD OF TRUSTEES FOR THE
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
MINUTES OF MEETING**

March 17, 2020

The Board of Trustees for the Maryland State Retirement and Pension System convened, via video-conference call, at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 9:35 a.m.

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	David Hamilton (via phone)
Peter Franchot, Vice Chairman (via phone)	Linda Herman (via phone)
David Brinkley (via phone)	Sheila Hill (via phone)
Eric Brotman (via phone)	F. Patrick Hughes (via phone)
Jamaal Craddock (via phone)	Richard Norman (via phone)
Kenneth Haines (via phone)	Douglas Prouty (via phone)
	Michael Stafford, Jr. (via phone)

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Gawthrop (via phone)	Kim O'Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

Consent Agenda	On a motion made by Mr. Norman and seconded by Mr. Brotman, the Board approved the consent agenda, which included: <ul style="list-style-type: none">February 18, 2020 Open Meeting Board MinutesFebruary 18, 2020 Corporate Governance Committee Meeting SummaryMarch 3, 2020 Administrative Committee Meeting Summary
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Recommendation of the Corporate Governance Committee regarding Proposed	Ms. Voglino provided the Board with a memorandum from the Chairman of the Corporate Governance Committee regarding the following proposed changes to the System's Proxy Voting Guidelines. The Board was also provided a red-lined version of the proposed changes to the Investment Policy Manual to be adopted should the Board approve the modified guidelines:
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Changes to Proxy Voting Guidelines and Investment Policy Manual

Topic 1: Board Composition – Diversity

Voting for Directors

Specifically, votes should be withheld from U.S. directors who:

- Generally vote against or withhold from the chair of the nominating committee (or other directors on a case-by-case basis) at companies where there are no women on the company's board. The vote is subject to mitigating factors such as firm commitments to appoint at least one woman to the board within a year and other relevant factors as applicable.

Mr. Hughes asked if a copy of the research on this topic had been shared with the Board.

Ms. Voglino responded no, but that she could post a copy of the research on the Board portal.

Mr. Hughes expressed his interest in seeing the research.

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Ms. Voglino responded that Institutional Shareholder Services Inc. ("ISS") issues research for their clients each year and that this topic of board diversity was one area of research distributed in October of 2018.

Topic 2: Board Accountability for Newly Public Companies

Voting for Directors

Specifically, votes should be withheld from U.S. directors who:

- For newly public companies, prior to or in connection with the company's public offering, have adopted bylaw or charter provisions that are considered to be materially adverse to shareholder rights. A reasonable sunset provision will be considered a reasonable mitigating factor. Unless the adverse provision is reversed or removed, vote case-by-case on director nominees in subsequent years.

Mr. Hughes asked if anyone was concerned with ISS's power and asked if someone could speak with the Corporate Governance Committee regarding the power that ISS has regarding System proxy voting going forward.

Ms. Voglino responded that the System has a custom proxy voting policy that the Board sets and ISS is responsible for voting per that custom policy. The System does not have the staff to review the approximately eighty thousand proxies voted each year. However, she reported that she conducts monthly testing on cast votes to ensure ISS votes per the System's custom policy and an annual due diligence review.

Topic 3: Diversity – Gender Pay Gap

Gender – Diversity Pay

Generally vote case-by-case on requests for reports on a company's pay data by gender, race or ethnicity, or a report on a company's policies and goals to reduce any gender, race or ethnicity pay gap, taking into account:

- The company's current policies and disclosure related to both its diversity and inclusion policies and practices and its compensation philosophy and fair and equitable compensation practices;
- Whether the company has been the subject of recent controversy, litigation or regulatory actions related to gender, race or ethnicity pay gap issues; and
- Whether the company's reporting regarding gender, race or ethnicity pay gap policies or initiatives is lagging its peers.

On a motion made by Mr. Norman and seconded by Mr. Prouty, the Board voted to approve the recommendation of the Corporate Governance Committee regarding changes to the Proxy Voting Guidelines and the Investment Policy Manual concerning the same, as presented. Mr. Hughes opposed the motion.

Medical Board
Physicians

The Board of Trustees was provided a copy of the curriculum vitae of Dr. Michael Anthony Sauri and staff's recommendation that Dr. Sauri replace Dr. Parkerson, as a permanent member of the Medical Board panel.

On a motion made by Mr. Hughes and seconded by Secretary Brinkley, the Board of Trustees approved Dr. Michael Anthony Sauri as a permanent member of the Medical Board.

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2020 Legislative
Bill Review

Ms. Gawthrop provided the Board of Trustees a final report on the 2020 pension related legislation. See *Attachment A*.

Ms. Gawthrop reported that all Board requested legislation passed.

CIO Report

Mr. Palmer provided the Board with two fund tear sheets, one as of January 31, 2020, which showed that the total fund value at approximately \$56.1 Billion, with an increase of 0.11% for the month and an increase of 10.77% for the year. The second tear sheet provided preliminary numbers, as of February 29, 2020, which showed the total fund value to be approximately \$54.8 Billion. The report also showed that the fund's return for the month was -2.12% and that it had decreased to 7.42% for the year.

Mr. Palmer reported that the fund was hit with a double whammy with the corona virus and the oil price feud between Saudi Arabia and Russia. The arrival of the corona virus in Europe and the United States raised concerns about potential impacts on growth if the virus turned out to be a deadly pandemic. Already, the impact on China and global travel had begun to impact the demand for oil before Saudi Arabia announced its decision to increase production and compete for market share on price.

Mr. Brotman asked how Mr. Palmer feels regarding the impact on real estate investments from a drop off in lease payment rates.

Mr. Palmer responded that he shared Mr. Brotman's concern about the health of the asset class in the near term but offered that he System has been deemphasizing office buildings for some time and adding to multifamily and industrial warehouses. Both of those sectors are expected to fair better. For example, Amazon is hiring thousands of people because of the surge in online shopping.

Comptroller Franchot asked what the fund value was at the peak and how far it had fallen to date.

Mr. Palmer responded that the fund value was close to \$57 billion in mid-February. It was \$56.1 billion at the end of January, \$54.8 billion at the end of February and as of March 16, 2020, the fund value was at \$51.0 billion.

Comptroller Franchot asked if there would be different approaches to equities. He expressed concern about the continued risk in equity markets and the fund overall.

Mr. Palmer responded that staff had made some rebalancing investments in equities, but the primary focus was on building liquidity to ensure availability of funds to make benefit payments, meet capital calls and to rebalance to risk assets at the appropriate time.

Comptroller Franchot raised the possibility of the Governor being asked to use part of the \$500 million rainy day fund to improve the funded status of the System

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while asset prices were low. He further inquired what staff had done in response to the changing circumstances.

Mr. Palmer responded that nothing specific has been done over the last couple weeks, but over the last years, the System has been working to reduce risk within asset classes by reducing leverage, moving to more senior positions and engaging with firms that have a process that has been proven effective in different environments.

Comptroller Franchot asked Mr. Palmer to comment on Treasury fund yields and their impact on the System's actuarial rate.

Mr. Palmer responded that he has been in contact with Frank Benham at Meketa to discuss the structure of the portfolio going forward if interest rates stay at or below 2%. With regard to the actuarial rate he noted that 2.6% of the 7.4% rate was the inflation assumption. Recent events were exerting a downward pressure on inflation which would favorably impact the liabilities. In his view, the key was the ability to earn 4.8% real return over time which might become easier with lower valuations and the creative destruction that often comes with downturns.

Mr. Stafford commented that relative to our peers, it appears that we are picking up ground, but asked if we should consider realigning the bond allocation in light of its long duration and low yields. In addition, Mr. Stafford asked Treasurer Kopp if the Board should supply the legislature with an update on the unfunded liability.

Mr. Palmer responded that bonds still have a diversified impact on the portfolio but acknowledged that the diversification benefit is becoming more expensive as yields have fallen.

Comptroller Franchot commented that he strongly encourages the Board to send a letter to legislature regarding the pension fund and the long-term implications. Comptroller Franchot further commented that the current situation is only going to get worse and that small business are going to get hammered.

Treasurer Kopp responded that it was her intention to follow-up, with the legislature, when we have all the numbers. Treasurer Kopp commented that she could distribute the letter to the Board before sending.

Ms. Gawthrop responded that staff from both the Appropriations and Budget and Taxation have been in contact with her and Mr. Palmer regarding the status of the System's investments.

Executive
Director's Report

Mr. Kenderdine reminded the Board of the recent memo he issued regarding the actions taken during the State of Emergency by the Governor.

Mr. Kenderdine updated the Board on the reduction of employees working on-site in light of the Governor's executive order regarding teleworking. He noted that the number of employees working on-site was down to 25, approximately 12-13% of the Agency's total staff, to make sure that payroll is completed and to process retirement applications and any legal documents.

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Mr. Kenderdine reported that the Agency's mail room has been reduced to 2-3 people 2 days per week.

Mr. Kenderdine reported that the remote call center has been tested in the past, but not at this level, and so far, there have not been any issues.

Mr. Kenderdine further reported that the Agency's website and Facebook page carries a message that benefits will be paid.

Mr. Kenderdine reported that the roll-out of the *mySRPS* has been suspended due to the mailroom's limited service, as it is through the mail room staff that member portal registration packets are produced and sent out. Mr. Kenderdine further reported that as of March 16, 2020, approximately 10,000 members have registered for *mySRPS*.

Ms. Cohen advised that the Governor issued an executive order permitting State agencies to extend or suspend certain statutory deadlines administered by those agencies. Ms. Cohen commented that there may be a potential need for the Board to extend statutory deadlines that could be difficult for System participants to meet during the state of emergency. For example, in the pursuit of a disability claim, the law requires that a claimant respond in 45 days of the Agency's request for documents such as medical records, and claimants may not be able to comply with this time requirement during the state of emergency. Ms. Cohen reported that there could be other types of situations where a deadline could be extended. Ms. Cohen will work with Agency staff to identify all such situations and will issue a proposal to the Board in the near future, which could be voted on electronically and ratified at a future Board meeting.

On a motion made by Mr. Hughes and seconded by Mr. Prouty, the Board voted to meet in a Closed Session, beginning at 10:30 a.m., via conference call, in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor, for the purpose of:

1. reviewing the closed session Board minutes, pursuant to General Provisions Art., § 3-103(a)(1)(i), the exercise of an administrative function and General Provisions Art., § 3-305(b)(13), to comply with a specific statutory requirement that prevents public disclosure, namely General Provisions Art., § 3-306(c)(3)(ii), requiring that the minutes of a closed session be sealed and not be open to public inspection; and
2. reviewing the Medical Board reports regarding individual participants' claims for disability retirement benefits, pursuant to General Provisions Art., § 3-305(b)(13), to comply with a specific constitutional, statutory, or judicially imposed requirement that prevents public disclosures about a particular proceeding or matter namely, General Provisions Art., § 4-312 regarding the prohibition on disclosing retirement records, and General Provisions Art., § 4-329 regarding the prohibition on disclosing medical and psychological information.

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CLOSED SESSION

The Trustees present included:

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David Brinkley (via phone)	Sheila Hill (via phone)
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Jamaal Craddock (via phone)	Richard Norman (via phone)
Kenneth Haines (via phone)	Douglas Prouty (via phone)
	Michael Stafford, Jr. (via phone)

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Gawthrop (via phone)	Kim O'Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

On a motion made by Mr. Prouty and seconded by Mr. Norman, the Board returned to open session at 10:32 a.m., via conference call, in the Board Room of the SunTrust Building at 120 East Baltimore Street, 16th Floor.

OPEN SESSION

The Trustees present included:

Nancy K. Kopp, Chairman, Presiding (via phone)	Linda Herman (via phone)
Peter Franchot, Vice Chairman (via phone)	Sheila Hill (via phone)
David Brinkley (via phone)	F. Patrick Hughes (via phone)
Eric Brotman (via phone)	Richard Norman (via phone)
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Kenneth Haines (via phone)	Michael Stafford, Jr. (via phone)
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Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Gawthrop (via phone)	Kim O'Keeffe	David Rongione (via phone)
Ira Greenstein	Andrew Palmer (via phone)	Janet Sirkis
Angie Jenkins	Ken Reott	Toni Voglino

Assistant Attorneys General present included: Rachel Cohen and Kathleen Wherthey (via phone)

Other attendees included: Justin Hayes (via phone)

During closed session, the Board of Trustees discussed and took action on the following matters:

Closed Session Minutes	The Board reviewed and approved the February 18, 2020 closed session minutes.
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Medical Board Reports	The Board reviewed and adopted the medical board reports from February 19, February 27, March 4 and March 12, 2020.
Adjournment	There being no further business before the Board, on a motion made by Mr. Prouty and seconded by Mr. Norman, the meeting adjourned at 10:32 a.m.

Respectfully submitted,



R. Dean Kenderdine
Secretary to the Board